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Irving Trust Company A Charter New York Bank
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Economic Research
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Financial Markets

Friday November 16, 1979

The bond market rally that began late last week was short-lived. Corporate bond prices did push up strongly on Monday, but trading was light, and the government market was essentially closed down by bank observance of the Veterans Day holiday. On Tuesday, prices began to slide and continued soft through most of the week. Renewed talk of an imminent peak in interest rates is beginning to tempt retail buyers back into the market, though they remain for the most part reluctant customers who can be coaxed into buying by only the most attractive of yields. This was evident from the results of Pacific Telephone's offering of A-rated bonds; though priced to provide a much more generous yield than expected, 12.7%, investor interest was subdued.

The markets did get a little boost from additional evidence of an impending economic downturn that should bring about a turnaround in interest rates. Weak auto output contributed to a nominal increase in October industrial production; and disastrous auto sales in early November suggest even weaker production this month. But the overall sense of economic and political uncertainty arising from the Iranian crisis dominated the markets. Iranian attempts to withdraw U.S. dollar deposits, the U.S. freeze of official Iranian assets, and rumors that Iran might require nondollar petroleum payments were enough to subdue the otherwise improving market sentiment.

Moreover, before any rate turnaround, monetary and credit expansion will have to show signs of moderation, and the weekly money statistics for the first week of November--M_1 up $3 billion and M_2 up $4.4 billion--emphasized that it would be premature to view October's monetary slowdown as evidence of improving monetary control. More importantly, as Federal Reserve Chairman Volcker has repeatedly pointed out, the course of interest rates will be significantly determined by progress on inflation, and better near-term price performance appears unlikely, with consumer price gains exceeding a 12% annual rate for the final quarter of the year. As a result, rates may move even higher by early 1980, before beginning to turn down in the spring.

In the money market, rates moved somewhat lower in most sectors. The declines can be traced to the lower Fed funds trading range of the past few weeks, since short-term credit demand continues generally strong. Commercial paper borrowings by nonfinancial firms rose $0.8 billion. Commercial banks continued to raise new money in the CD market, where outstandings of New York banks were up $150 million. And judging from the Fed's weekly report of marginal required reserves against managed liabilities--mainly CDs, Federal funds, Repurchase Agreements and Eurodollars--use of such funds has increased by about $10 billion since the end of September, no doubt a consideration as many banks raised their prime rate to 15 3/4%. Business loans did drop in New York, however, and there are signs that the rate of bank credit demand may be slowing from the rapid 25% annual pace that had persisted through the first three quarters of the year.

Glenn C. Picou

Money Market Rates

Irving Trust Company

A Charter New York Bank

	11/16/79 (Noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company			
Short-term loans to substantial depositors with highest credit rating	15.75%	15.50%	11.00%
Effective since	11/16/79		
Discount Rate at Federal Reserve Bank	12.00	12.00	9.50
Federal Funds	13.38	13.75	9.63
Repurchase Agreements	12.50	12.25	9.50
U.S. Treasury Issues - Yields			
Bills			
3 months	12.30	12.50	8.25
6 months	12.90	13.00	9.50
1 year	12.35	12.50	9.75
Coupons			
2 years	11.80	11.89	9.20
4 years	11.12	11.18	8.80
7 years	10.90	11.05	8.68
10 years	10.75	10.75	8.70
Long Bond	10.40	10.30	8.68
Negotiable Certificates of Deposit-Secondary Market			
1 month	13.90	14.20	9.90
3 months	14.10	14.35	10.55
6 months	14.15	14.40	11.00
1 year	13.60	13.70	10.90
Bankers' Acceptances			
1 month	13.90	14.00	10.08
3 months	14.20	14.50	10.68
6 months	14.25	14.50	11.19
Eurodollar Deposits			
1 month	14.50	14.75	10.13
2 months	15.38	15.56	11.19
3 months	15.38	15.63	11.44
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	10.00	10.00	9.00
1 month	13.50	14.00	10.00
3 months	12.75	12.88	10.05
Bank Holding Companies			
1 month	13.30	13.90	10.00
Dealer Placed:			
3 months	13.63	14.25	10.30
New Aa Corporate Utility Bond	11.75	11.75	9.25
Tax Exempt			
6 month Project Notes	6.40	6.25	5.05
12 month Project Notes	6.60	6.50	5.15
20 year AAA Bond	6.80	6.75	5.60

This information represents prevailing market yields. It should not be construed as an offering. All yields are on the offered side of the market.

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